

CITY OF MELBOURNE, IOWA

Independent Auditors' Report
Basic Financial Statements and
Supplemental Information and Findings

June 30, 2006

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City of Melbourne, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Stanley C. Randall	Mayor	November, 2009
Carol Pelfrey	Council Member	November, 2007
Dick Monroe	Council Member	November, 2007
Tom Eckhart	Council Member	January, 2009
John White	Council Member	January, 2009
David Gibbs	Council Member	November, 2007
Shirley Kay Monroe	City Clerk	September, 2006
Marilyn K. Purdy	Deputy City Clerk	Indefinite
Sharon Soorholtz Greer	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Melbourne

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Melbourne, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Melbourne's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited since June 30, 2001. Accordingly, we were unable to satisfy ourselves as to the distribution of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial positions of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Melbourne as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 11, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports as dated below on our consideration of the City of Melbourne's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Melbourne's basic financial statements. Other supplementary information included in Schedules 1 through 4, including the accompanying Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 27, 2006

Pollard and Company P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Melbourne provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased approximately \$ 751,969 from fiscal 2005 to fiscal 2006.

Disbursements of the City's governmental activities increased \$643,017 in fiscal 2006 from fiscal 2005.

Capital Projects disbursements increased \$672,788.

The City's Governmental Total Cash Basis Net Assets increased by \$124,681.

Business Type total cash basis net assets decreased by \$10,776.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.

The Government-wide Financial Statements consist of a Statement of Activities and Changes in Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other supplementary Information provides detailed information about the governmental and proprietary funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles (GAAP). Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of a cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City's improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Government Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statement

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include: 1) The General Fund, 2) the Special Revenue Funds, such as Employee Benefits, Road Use Tax, and Local Option Tax, 3) Capital Projects. The government fund statements provide a detailed short-term view of the City's general government operation and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business-type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliation between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities. Comparative information is limited because the year ended June 20, 2005 was not presented in the GASB 34 format.

Changes in Cash Basis Net Assets of Governmental Activities Year ended June 30, 2006

Receipts

Property Taxes	\$128,474
Other City Tax	64,021
Licenses and Permits	1,088
Use of Money and Property	14,889
Intergovernmental	345,316
Miscellaneous	78,036
<u>Total receipts</u>	<u>631,824</u>

Disbursements

Operating	
Public Safety	\$ 61,352
Public Works	101,396
Health and Social Services	768
Culture and Recreation	84,523
Community and Economic Development	337
General Government	43,771
Capital Projects	672,788
<u>Total Disbursements</u>	<u>\$964,935</u>

Excess (deficiency) of receipts	
Over (under) disbursements	(333,111)

Other financing sources (uses)	
Bonds Proceeds	445,792
Sale of capital assets	12,000
Operating transfers in	39,960
Operating transfers out	(39,960)
<u>Total other financing sources (uses)</u>	<u>457,792</u>

Net change in cash balances	124,681
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Cash balance – beginning of year	726,266
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<u>Cash balance – end of year</u>	<u>\$850,947</u>
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The City's total receipts for governmental activities were \$1,089,616 compared to \$337,647 for June 30, 2005. The cost of governmental activities was \$964,935 for June 30, 2006 compared to \$321,918 for June 30, 2005.

Changes in Cash Basis Net Assets of Business Type Activities
Year ended June 30, 2006

Receipts		
Program receipts		
Charges for services:		
Water	98,055	
Sewer	<u>85,700</u>	
Total receipts	183,755	
Disbursements		
Water	104,158	
Sewer	<u>90,373</u>	
Total disbursements	194,531	
(Decrease) in cash balance	(10,776)	
Cash basis net assets beginning of year	53,125	
Cash basis net assets end of year	42,349	

Total business type activities receipts for the fiscal year were \$183,755 compared to \$236,802 last year.
Total disbursements for fiscal year were \$194,531 compared to \$212,963 last year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The new lagoon system capital project was completed.
- The Water Fund balance was reviewed and the City will be looking at an increase in water fees. This will help offset the increase from our water supplier.
- The Sewer Fund balance will be reviewed for an increase due to the fact of the new lagoon system the city has just established.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Melbourne elected and appointed officials considered many factors when setting the fiscal year 2008 budget, tax rates, and fees charged for various City activities. One of those factors is the economy. The City's is considered a bedroom community and we want to improve the sales of our lots for building and for establishing activities for young people. The last consideration is for the growth of our city where families will establish a home here where there are good schools, preschools, and general safety of the citizens. We have a group of citizens which are working very hard to have a new pool and remodel of the community's recreation center.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The decrease of funds available for betterment of a community is now harder to obtain. We like to sell our community as a center point of living due to the fact that highway 330 has opened the transportation travel to surrounding larger cities.

Increased wage and cost-of-living adjustments, increases in street construction and maintenance will have an affect on our budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marilyn Purdy, City Clerk, 111 1st Street, Melbourne, Iowa 50162.

City of Melbourne, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2006

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 61,352		\$ 13,458	
Public works	101,396			66,478
Health and social services	768			
Culture and recreation	84,523		6,904	7,013
Community and economic development	337			
General government	43,771			
Capital projects	672,788			258,476
Total governmental activities	964,935	-	20,362	331,967
Business type activities				
Water	104,158	97,129		
Sewer	90,373	82,030		
Total business type activities	194,531	179,159	-	-
Total	\$ 1,159,466	\$ 179,159	\$ 20,362	\$ 331,967

General Receipts

Property tax levied for
 General purposes
Local option sales tax
Unrestricted interest on investments
Bond proceeds
Miscellaneous
Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash basis net assets

Restricted (deficit)
 Streets
 Employee Benefits
 Debt service
 Capital Project
 Other purposes
Unrestricted
 Total cash basis net assets

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis
Net Assets

	Governmental Activities	Business Type Activities	Total
\$	(47,894)		\$ (47,894)
	(34,918)		(34,918)
	(768)		(768)
	(70,606)		(70,606)
	(337)		(337)
	(43,771)		(43,771)
	(414,312)		(414,312)
	(612,606)	-	(612,606)
		(7,029)	(7,029)
		(8,343)	(8,343)
	-	(15,372)	(15,372)
\$	(612,606)	\$ (15,372)	\$ (627,978)

	128,474		128,474
	64,021		64,021
	14,889	4,596	19,485
	445,792		445,792
	84,111		84,111
	737,287	4,596	741,883
	124,681	(10,776)	113,905
	726,266	53,125	779,391
\$	850,947	\$ 42,349	\$ 893,296

\$	83,374		\$ 83,374
	39,045		39,045
		3,554	3,554
	3,480		3,480
	309,913		309,913
	415,135	38,795	453,930
\$	850,947	\$ 42,349	\$ 893,296

City of Melbourne, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2006

	General	Capital Project CDBG	Capital Project Sewer	Other Nonmajor Governmental Funds	Total
Receipts					
Property Taxes	\$ 107,957	\$ -	\$ -	\$ 20,517	\$ 128,474
Other City Tax	32,881	-	-	31,140	64,021
Licenses and Permits	1,088	-	-	-	1,088
Use of Money and Property	10,896	-	-	3,993	14,889
Intergovernmental	20,362	258,476	-	66,478	345,316
Miscellaneous	4,149	-	-	73,887	78,036
Total Receipts	177,333	258,476	-	196,015	631,824
Disbursements					
Operating					
Public Safety	49,930	-	-	11,422	61,352
Public Works	15,961	-	-	85,435	101,396
Health and Social Services	768	-	-	-	768
Culture and Recreation	75,759	-	-	8,764	84,523
Community and Economic Development	337	-	-	-	337
General Government	40,489	-	-	3,282	43,771
Capital Projects	-	230,476	442,312	-	672,788
Total Disbursements	183,244	230,476	442,312	108,903	964,935
Excess (deficiency) of receipts over (under) disbursements	(5,911)	28,000	(442,312)	87,112	(333,111)
Other financing sources (uses)					
Bond Proceeds	-	-	445,792	-	445,792
Sale of capital assets	12,000	-	-	-	12,000
Operating transfers in	39,960	-	-	-	39,960
Operating transfers out	-	-	-	(39,960)	(39,960)
Total other financing sources (uses)	51,960	-	445,792	(39,960)	457,792
Net change in cash balances	46,049	28,000	3,480	47,152	124,681
Cash balance - beginning of year	369,086	(28,000)	-	385,180	726,266
Cash balance - end of year	\$ 415,135	\$ -	\$ 3,480	\$ 432,332	\$ 850,947
Cash basis fund balances (deficit)					
Unreserved					
General fund	\$ 415,135	\$ -	\$ -	\$ -	\$ 415,135
Special revenue funds	-	-	-	432,332	432,332
Capital projects fund	-	-	3,480	-	3,480
Total cash basis fund balances	\$ 415,135	\$ -	\$ 3,480	\$ 432,332	\$ 850,947

The accompanying notes to financial statements are an integral part of this statement.

City of Melbourne, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2006

	Water	Sewer	Total
Operating receipts			
Use of money and property	\$ 926	\$ 3,670	\$ 4,596
Charges for service	97,129	79,763	176,892
Miscellaneous		2,267	2,267
Total operating receipts	<u>98,055</u>	<u>85,700</u>	<u>183,755</u>
Operating disbursements			
Business type activities	<u>104,158</u>	<u>40,838</u>	<u>144,996</u>
Excess (deficit) of operating receipts over operating disbursements	<u>(6,103)</u>	<u>44,862</u>	<u>38,759</u>
Non-operating (disbursements)			
Debt service		<u>(49,535)</u>	<u>(49,535)</u>
Total non-operating receipts (disbursements)	<u>-</u>	<u>(49,535)</u>	<u>(49,535)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(6,103)</u>	<u>(4,673)</u>	<u>(10,776)</u>
Net change in cash balances	(6,103)	(4,673)	(10,776)
Cash balances - beginning of year	1,834	51,291	53,125
Cash balances (deficit) - end of year	<u>\$ (4,269)</u>	<u>\$ 46,618</u>	<u>\$ 42,349</u>
Cash basis fund balances (deficit)			
Reserved for debt service		\$ 3,554	\$ 3,554
Unreserved	(4,269)	43,064	38,795
Total cash basis fund balances	<u>\$ (4,269)</u>	<u>\$ 46,618</u>	<u>\$ 42,349</u>

The accompanying notes to financial statements are an integral part of this statement.

City of Melbourne, Iowa
Notes To Financial Statements
June 30, 2006

1/ Summary of Significant Accounting Policies

The City of Melbourne is a political subdivision of the State of Iowa located in Marshall County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Melbourne has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the City's citizenry, but do not meet the criteria for a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Marshall County Assessor's Conference Board, the Marshall County Emergency Management Agency and the Marshall County Solid Waste Commission.

The City has entered into a 28E Agreement with the City of Rhodes to share a law enforcement officer and associated equipment. The City will employ the officer and the City of Rhodes will pay a portion of the costs. Also, the 28E agreements with Logan and Washington townships commits the City to provide fire protection with the townships paying part of the cost.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Capital Projects Funds are utilized to account for all resources used in the acquisition of capital facilities.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Water Fund accounts for the operation and maintenance of the City's water system.

C. Measurement Focus and Basis of Accounting

The City of Melbourne maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation functions. The capital projects are related to the business type activities functions and should be considered together resulting in the budget exceeding the amounts disbursed.

2/ Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Interest Rate Risk – the City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but maturities shall be consistent with the needs and use of the City.

3/ Bonds and Notes Payable

Annual debt service requirements for revenue bonds are as follows:

Year Ending June 30,	Sewer Revenue Bonds	
	Principal	Interest
2007	\$ 26,000	\$ 19,710
2008	27,000	18,930
2009	28,000	18,120
2010	29,000	17,280
2011	30,000	16,410
2012-2016	160,000	68,250
2017-2023	237,231	55,770
	<u>537,231</u>	<u>214,470</u>

The resolution providing for the issuance of the sewer revenue bonds include the following provisions.

- a. The bonds will only be redeemed from the future earnings of the sewer activity and the note holders hold a lien on the future earnings of the sewer fund.
- b. Sufficient monthly transfers shall be made to a separate revenue bond sinking fund for the purpose of making the next bond principal and interest payments.

As of June 30, 2006, the City has not established the sinking funds required by the above resolution.

4/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

4/ Pension and Retirement Benefits (continued)

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2006, was \$6,863, which is equal to the required contribution for that year.

5/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for these earned termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is \$1,700.

This liability has been computed based on rates of pay as of June 30, 2006.

6/ Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 531 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and if insufficient, by the subsequent year's member contributions.

The property and casualty contributions to the risk pool are recorded as disbursements from operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2006 were \$20,577.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual basis.

6/ Risk Management (continued)

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial and worker compensation insurance purchased from other insurers for coverage associated with employee dishonesty. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

	Transfer To General
Transfer from Employee Benefits	39,960
	<u>\$ 39,960</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

8/ Deficit Fund Balance

The Water Fund had a deficit balance of \$4,269. The deficit was a result of operating expenditures exceeding receipts. Subsequent receipts will eliminate the deficit.

9/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities, and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

10/ Construction Commitments

In June 2006, the City committed to securing a local option sales tax revenue bond to be paid from the future sales tax designated to the pool and recreation center. The proceeds plus grants, future donations and the current fund balance will be used to pay the approximate \$475,000 cost.

11/ Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – for Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 42, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

City of Melbourne, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2006

	Governmental Funds Actual	Enterprise Funds Actual	Total	Budget	Budget to Total Variance
Receipts					
Property Taxes	\$ 128,474		\$ 128,474	\$ 124,196	\$ 4,278
Other city tax	64,021		64,021	71,771	(7,750)
Licenses and permits	1,088		1,088	1,115	(27)
Use of money and property	14,889	4,596	19,485	24,500	(5,015)
Intergovernmental	345,316		345,316	92,550	252,766
Charges for Service		176,892	176,892	181,350	(4,458)
Miscellaneous	78,036	2,267	80,303	34,900	45,403
Total Receipts	631,824	183,755	\$ 815,579	530,382	285,197
Disbursements					
Public safety	61,352		61,352	77,111	15,759
Public works	101,396		101,396	106,337	4,941
Health and social services	768		768	1,450	682
Culture and recreation	84,523		84,523	76,623	(7,900)
Community and economic development	337		337	8,330	7,993
General government	43,771		43,771	59,290	15,519
Capital projects	672,788		672,788		(672,788)
Business type activities		194,531	194,531	963,220	768,689
Total Disbursements	964,935	194,531	1,159,466	1,292,361	132,895
Excess (deficiency) of receipts over (under) disbursements	(333,111)	(10,776)	(343,887)	(761,979)	418,092
Other financing sources, net	457,792		457,792		(457,792)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	124,681	(10,776)	113,905	(761,979)	(875,884)
Balance - beginning of year	726,266	53,125	779,391	228,704	550,687
Balance - end of year	\$ 850,947	\$ 42,349	\$ 893,296	\$ (533,275)	\$ 1,426,571

See accompanying independent auditors' report.

City of Melbourne, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

City of Melbourne, Iowa
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2006

	Special Revenue						
	Road Use Tax	Employee Benefits	Local Option Sales Tax Fire	Local Option Sales Tax First Responder	Local Option Sales Tax Pool	Local Option Sales Tax Rec Center	Total
Receipts							
Property taxes	\$ -	\$ 20,517	\$ -	\$ -	\$ -	\$ -	\$ 20,517
Other City Tax			7,785	7,785	7,785	7,785	31,140
Use of money and property					697	3,296	3,993
Intergovernmental	66,478						66,478
Miscellaneous	396				28,237	45,254	73,887
Total Receipts	66,874	20,517	7,785	7,785	36,719	56,335	196,015
Disbursements							
Operating							
Public safety		3,669	7,753				11,422
Public works	84,508	927					85,435
Culture and recreation		4,187			4,577		8,764
General government		3,282					3,282
Total Disbursements	84,508	12,065	7,753	-	4,577	-	108,903
Excess (deficiency) of receipts over (under) disbursements	(17,634)	8,452	32	7,785	32,142	56,335	87,112
Other financing sources (uses)							
Operating transfers out	-	(39,960)	-	-	-	-	(39,960)
Net change in cash balances	(17,634)	(31,508)	32	7,785	32,142	56,335	47,152
Cash balance - beginning of year	101,008	70,553	621	38,088	53,837	121,073	385,180
Cash balance - end of year	\$ 83,374	\$ 39,045	\$ 653	\$ 45,873	\$ 85,979	\$ 177,408	\$ 432,332
Cash basis fund balances							
Special revenue funds	\$ 83,374	\$ 39,045	\$ 653	\$ 45,873	\$ 85,979	\$ 177,408	\$ 432,332
Total cash basis fund balances	\$ 83,374	\$ 39,045	\$ 653	\$ 45,873	\$ 85,979	\$ 177,408	\$ 432,332

See accompanying independent auditors' report.

City of Melbourne, Iowa
Schedule of Indebtedness
For the year ended June 30, 2006

	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
<hr/>								
State Revolving Loans								
2005 Sewer Revenue Bonds	March 14, 2005	3.00%	682,000	\$ 116,439	\$ 445,792	\$ 25,000	\$ 537,231	\$ 11,076
				<hr/>				

See accompanying independent auditor's report.

City of Melbourne, Iowa
Bond Maturities
June 30, 2006

2005 Sewer Revenue Bonds		
Issued March 14, 2005		
Year Ending June 30,	Interest Rates (%)	Amount
2007	3.00	\$ 26,000
2008	3.00	27,000
2009	3.00	28,000
2010	3.00	29,000
2011	3.00	30,000
2012	3.00	30,000
2013	3.00	31,000
2014	3.00	32,000
2015	3.00	33,000
2016	3.00	34,000
2017	3.00	35,000
2018	3.00	36,000
2019	3.00	37,000
2020	3.00	38,000
2021	3.00	40,000
2022	3.00	41,000
2023	3.00	10,231
Totals		<u>\$ 537,231</u>

City of Melbourne, Iowa
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Grantor/Program	CFDA Number	Program Expenditures
Indirect		
U.S. Environmental Protection Agency		
Iowa Department of Natural Resources		
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 442,312
U.S. Department of Housing and Urban Development		
Iowa Department of Economic Development		
Community Development Block Grant	14.228	230,476
		<u>\$ 672,788</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditors' report.

POLLARD AND COMPANY P.C.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council

We have audited the financial statements of the City of Melbourne, Iowa as of and for the year ended June 30, 2006, and have issued our report as dated below. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Melbourne's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe all of the reportable conditions described in Part II of the Schedule of Findings are material weaknesses. All prior audit reportable conditions have been resolved with the exceptions of II-A-06.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Melbourne and other parties to whom the City of Melbourne may report. This report is not intended to be and should not be used by anyone other than these specified parties.

November 27, 2006

Pollard and Company P.C.

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Melbourne, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Melbourne complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Melbourne is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered material weaknesses. We believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City and other parties to whom the City may report, including federal awarding agencies, and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

November 27, 2006

Pollard and Company P.C.

CITY OF MELBOURNE, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

PART I: Summary of the Independent Auditors' Results

- a. A qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major program.
- f. The audit did not disclose audit findings which are required to be reported in accordance with Office Management and Budget Circular A-133, Section .510(a).
- g. The major program was CFDA Number 66.458 Capitalization Grants for Clean Water State Revolving Funds.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000
- i. The City of Melbourne did not qualify as a low-risk auditee.

PART II Findings Related to the Financial Statements

REPORTABLE CONDITIONS

II-A-06 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although two individuals are involved in the accounting duties of the City, there is insufficient segregation of duties to prevent one individual from having control over each of the following areas:

- 1) Receipts – opening mail, collecting at City Hall, listing and depositing cash receipts, and posting to the general ledger.
- 2) Payroll – preparing, check signing, and posting to the general ledger.
- 3) Investments – detailed record keeping, custody reconciling, and posting to the general ledger.
- 4) Disbursements – check preparation, check signing, and posting to the general ledger.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. The City should review its control procedures to obtain the maximum internal control possible under the circumstances.

PART II Findings Related to the Financial Statements

REPORTABLE CONDITIONS

II-A-06 Segregation of Duties (continued)

Response

With the addition of new personnel, the City will attempt to segregate duties to the extent possible to provide additional control through review of financial transactions and reports and segregation of duties.

Conclusion

Response accepted.

II-B-06 Bank Reconciliations

Bank accounts should be reconciled to the computerized general ledger and the City's monthly financial report. However, the bank accounts were not reconciled throughout the year.

Recommendation

Bank reconciliations should be prepared monthly and agree to the general ledger and monthly financial reports. An independent person, not involved with accounting duties, should review the bank reconciliations and document the review process by initialing and dating the monthly reconciliations.

Response

In June, 2006 and continuing thereafter, the bank accounts were reconciled by City personnel. With the addition of a new assistant and involving a City Council member, the City will attempt to modify its procedures to initiate the additional controls.

Conclusion

Response accepted.

II-C-06 Reconciliation of Utility Billings, Collections and Delinquencies

Utility billings, collections and delinquent accounts were not reconciled.

Recommendation

Procedures should be established to reconcile utility billings, collections and monitor delinquencies and provide for review by someone independent of utility processing.

Response

We will contact our computer software provider to work with the new City Clerk to establish procedures.

Conclusion

Response accepted.

PART III Findings and Questioned Costs for Federal Awards

III-A-06 Segregation of Duties Over Federal Receipts

The City did not properly segregate cash receipts, deposits and posting to the general ledger including those related to federal programs. See item II-A-06.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response

The City will attempt to segregate duties to the extent possible to provide additional control through review of financial transactions and reports and segregation of duties.

Conclusion

Response accepted

PART IV Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget

Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the Culture and Recreation function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response

The budget will be amended in the future, if applicable.

Conclusion

Response accepted.

IV-B-06 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

PART IV Other Findings Related to Statutory Reporting (continued)

IV-D-06 Business Transactions

No business transactions between the City and City officials were noted in accordance with Chapter 362.5(10) of the Code of Iowa.

IV-E-06 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions.

IV-F-06 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-06 Deposits and Investments

A depository resolution was not approved as required by Chapter 12C.2 of the Code of Iowa. In addition, the City did not adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Recommendation

The City Clerk and Council should develop and implement the written investment policy and adopt a depository resolution including all depositories.

Response

We will develop and implement an investment policy and adopt a depository resolution.

Conclusion

Response accepted.

IV-H-06 Revenue Bonds

The City has not complied with the provision in the revenue bonds which requires the establishment of sinking funds for the payment of the principal and interest.

Recommendation

The City should review the revenue bond provisions for compliance.

Response

Subsequent to June 30, 2006, the City established the necessary sinking funds.

Conclusion

Response accepted.

PART IV Other Findings Related to Statutory Reporting (continued)

IV-I-06 Financial Condition

As further explained in Note 8 of the financial statements, the Water Fund had a deficit balance at June 30, 2006.

Recommendation

The City should investigate alternatives to eliminate the deficit in order to return the fund to a sound financial position.

Response

The City is investigating the possibility of increasing the water rates.

Conclusion

Response accepted.

IV-J-06 Publication of Gross Salaries

The gross salaries were not published for employees in accordance with Chapter 372.13 of the Code of Iowa.

Recommendation

Procedures should be established to ensure annual publication as required.

Response

We published the calendar year 2005 salaries in October, 2006 and will implement procedures to comply annually.

Conclusion

Response accepted.

IV-K-06 Local Option Sales Tax

In 2000, the City began collecting a 1% county-wide local option tax to be allocated 50% to the General Fund and 12.5% each to the Melbourne Fire Department, the Melbourne First Responders, the Pool and the Recreation Center.

Recommendation

Chapter 384.20 of the Code of Iowa states in part that a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose.

Response

The necessary adjustments were made and are reflected in the financial statements.

Conclusion

Response accepted.

PART IV Other Findings Related to Statutory Reporting (continued)

IV-L-06 Compilation of City Ordinances

A compilation of the City's Code of Ordinances in accordance with Chapter 380.8 of the Code of Iowa has not been made since 1995.

Recommendation

The City should update its compilation of City ordinances as required.

Response

After June 30, 2006, we have contracted with a codification contractor to update the City's code.

Conclusion

Response accepted.

IV-M-06 Separately Maintained Records

The custody of the Melbourne First Responders Account was under their control. This account was not reflected in the City's accounting system.

Recommendation

Chapter 384.20 of the Code of Iowa states in part that a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose.

Response

We have adjusted our financial statements to include this information. The financial activity and balances will also be included in the City's accounting system in the future.

Conclusion

Response accepted.

IV-N-06 Retention of Electronic Records

As required by Chapter 554D.114(5) of the Code of Iowa, if the bank retains the City's checks in an electronic format, the check images received by the City should display both the front and back of the checks.

Recommendation

The City should contact the bank to determine the bank's capabilities to comply with the law.

Response

After contacting the bank, the front and back of the checks will be received beginning in October, 2006.

Conclusion

Response accepted.